



## DEPARTMENT OF COMMERCE

### Minority Business Development Agency

#### 15 CFR Part 1400

[Docket No. 121130667-2667-02]

#### Determination of Group Eligibility for MBDA Assistance

AGENCY: Minority Business Development Agency, Commerce.

ACTION: Response to petition.

SUMMARY: On January 11, 2012, the Minority Business Development Agency (MBDA) received a petition from the American-Arab Anti-Discrimination Committee (ADC or Petitioner) requesting designation of the Arab-American community as a socially or economically disadvantaged group whose members are eligible for MBDA assistance. This document announces MBDA's determination that the ADC Petition is not currently supported by sufficient evidence to establish social or economic disadvantage as required by the MBDA regulations and applicable legal precedent.

FOR FURTHER INFORMATION CONTACT: Kimberly Marcus, Associate Director for Legislation, Education, and Intergovernmental Affairs, Minority Business Development Agency, 1401 Constitution Ave., Room 5065, Washington, DC 20230, (202) 482-6272.

SUPPLEMENTARY INFORMATION: Pursuant to Executive Order 11625 (E.O. 11625), MBDA provides management and technical assistance to minority business enterprises (MBEs) through its services and programs. A minority business enterprise for purposes of E.O. 11625 is

defined as a business owned or controlled by one or more socially or economically disadvantaged individuals.<sup>1</sup>

E. O. 11625 and subsequent MBDA regulations have designated the following groups whose members are currently considered socially or economically disadvantaged and therefore eligible to receive MBDA assistance:<sup>2</sup> Blacks, Puerto-Ricans, Spanish-speaking Americans, American Indians, Eskimos and Aleuts, Hasidic Jews, Asian Pacific Americans, and Asian Indians.<sup>3</sup> In order for a group to become eligible for MBDA's services, the group must submit a petition to MBDA demonstrating, by a preponderance of the evidence, that the group is socially or economically disadvantaged.<sup>4</sup>

On May 30, 2012, MBDA published a notice of proposed rulemaking and a request for comments in the Federal Register announcing receipt of a petition from the ADC seeking designation of Arab-Americans as a socially or economically disadvantaged group and requesting public comment on this designation.<sup>5</sup> In particular, the notice requested comment on and evidence concerning the extent to which Arab-Americans are economically disadvantaged. Comments were accepted from the public for a 30 day period until June 29, 2012, and were posted with the petition on MBDA's website.

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<sup>1</sup> 15 CFR 1400.1(b) (1984).

<sup>2</sup> See Executive Order 11625, sec. 6 (1971); 15 CFR 1400.1(b) and (c) (1984).

<sup>3</sup> 15 CFR 1400.1(b) and (c) (1984).

<sup>4</sup> *Id.* at § 1400.4(a).

<sup>5</sup> Petition for Inclusion of the Arab-American Community in the Groups Eligible for MBDA Services, 77 FR 31,765-31,767 (May 30, 2012). If the applicant has submitted a Petition for formal designation as a socially or economically disadvantaged group, "the Department of Commerce will publish a notice in the Federal Register that formal designation of this group will be considered" requesting comments that will help in making a final determination. See 15 CFR 1400.5. MBDA extended the deadline for making its decision until March 1, 2013. See Petition for Inclusion of the Arab-American Community in the Groups Eligible for MBDA Services, 77 FR 72254 (December 5, 2012).

In response, the Agency received 37 comments. Of these comments, 19 were in support of ADC's petition, while 13 expressed opposition, and five were disqualified for use of offensive or derogatory language. After careful review of the application and comments as well as independent research, MBDA has determined that the Petition is not currently supported by sufficient evidence to prove the necessary elements of social or economic disadvantage within the specific requirements of 15 CFR 1400.4(a) of the MBDA regulations and applicable case law.

#### Procedural Requirements for Determination of Group Eligibility for MBDA Assistance

A group applying for designation as socially or economically disadvantaged within the meaning of the MBDA regulations must submit a written application to the Minority Business Development Agency containing a statement of request, a detailed description of the applicant group delineating sufficiently distinctive traits of its members, a brief summary of the submission, a narrative description of documentation in support of the claim, and a conclusion.<sup>6</sup> Along with an adequate petition, MBDA must consider the comments received and may also consider any additional information gathered by the Agency from independent research.<sup>7</sup>

On January 11, 2012, the ADC filed a petition on behalf of the Arab-American community, requesting that MBDA designate Arab-Americans as a socially or economically disadvantaged group. The Petition defines the Arab-American group as persons who can trace their ancestry to one of the Arabic-speaking countries or areas of the world categorized as Arab countries. According to the Petition, these countries include, but are not limited to: Algeria, Bahrain, Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Qatar,

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<sup>6</sup> 15 CFR 1400.3 (1984).

<sup>7</sup> *Id.* at §1400.5.

Somalia, Saudi Arabia, Sudan, Syria, Tunisia, United Arab Emirates, and Yemen.<sup>8</sup> The Petition included Census data showing 1.2 million Americans who report Arab ancestry.<sup>9</sup> The Petition also includes a description of unique cultural and ethnic traits such as common Arabic language, traditional music, unique food, as well as an Arab-American press catering to this community.

As required by its regulations, MBDA published the Petition in the Federal Register for 30 days and requested general comments and comments on specific social and economic issues related to Arab-Americans. This is the first time that MBDA has considered the inclusion of a group on the basis of racial or ethnic classification under the regulations set forth in 15 CFR 1400.1 through 1400.6 MBDA published several notices extending the time period for making a decision in order to consider fully the issues presented by the Petition, to conduct independent research, and to consider the implications of relevant legal precedent.<sup>10</sup> These issues are addressed below.

#### Substantive Requirements for Group Eligibility

For a group to become eligible for MBDA's services, it must submit a petition to MBDA demonstrating, by a preponderance of the evidence, that the group is socially or economically disadvantaged. The regulations at section 1400.2(b) define socially disadvantaged persons as "persons who have been subjected to cultural, racial or ethnic prejudice because of their identity as members of a group without regard to their individual qualities." Section 1400.2(c) of the regulations defines economically disadvantaged persons as "persons whose ability to compete in

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<sup>8</sup> American-Arab Anti-Discrimination Committee Petition for Determination of Group Eligibility for MBDA Assistance (filed, January 11, 2012) at 3 (ADC Petition or Pet.). The Petition also includes Palestinian-Americans within this group.

<sup>9</sup> Pet. at 4(citing Arab American Institute, *Demographics: Religion (2002 Zogby International Survey)*, <http://www.aaiusa.org/arabamericans/22/demographics> (last visited December 30, 2011)). See also De la Cruz, G. Patricia and Brittingham, Angela. *US Census Bureau Census 2000 Brief, The Arab Population: 2000* (December 2003) available at <http://www.census.gov/prod/2003pubs/c2kbr-23.pdf>.

<sup>10</sup> *Adarand Constructors, Inc. v. Peña*, 515 U.S. 200 (1995).

the free enterprise system has been impaired due to diminished capital and credit opportunities because of their identity as members of a group without regard to their individual qualities, as compared to others in the same line of business and competitive market area.” The petition must prove that the social or economic disadvantage has produced impediments in the business world for members of the group which are not common to all business people in the same or similar business and marketplace.

The regulations also set out several nonexclusive categories of evidence that will be considered including: national income level and standard of living statistical data; evidence of employment and educational discrimination; evidence of denial of access to educational, professional, and social organizations; the kinds of business opportunities available to members of the group; the availability of capital, technical, and managerial resources; and any other evidence of denial of opportunity or access to those things that would enable successful participation in the American economic system.<sup>11</sup> While the petitioner has the burden of providing sufficient evidence to meet the standard, MBDA as trier of fact may gather additional information which supports or refutes the group’s request.<sup>12</sup>

Since the promulgation of the MBDA regulations, the U.S. Supreme Court issued its opinion in *Adarand v. Peña*, which applied strict scrutiny to government programs that rely on racial classifications.<sup>13</sup> To the extent that it applies, strict scrutiny analysis requires that in order to meet a constitutional challenge, the program must serve a compelling government interest and must be narrowly tailored to serve that interest. Courts have repeatedly found that the government has a compelling government interest in rectifying past discrimination caused by the

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<sup>11</sup> 15 CFR 1400.4(b) (1984).

<sup>12</sup> *Id.* at § 1400.5 (1984).

<sup>13</sup> *Adarand Constructors, Inc. v. Peña*, 515 U.S. 200 (1995).

government and in not passively participating in private systems of discrimination. To establish that compelling interest, the government must show a strong basis in evidence that a race based program is necessary to remedy racial or ethnic discrimination. Courts usually rely on a showing that includes statistical evidence of underrepresentation or underutilization in finding that the “strong basis in evidence” standard has been met. Therefore, to ensure that its programs meet constitutional standards as applicable, MBDA requires a group seeking eligibility for MBDA programs to provide substantial evidence of impediments in the business world to show a need for extending the program to that group.

*Social or Economic Disadvantage Evidentiary Standard*

In order to establish social or economic disadvantage for purposes of MBDA programs, a petition must present evidence of either social or economic disadvantage that meets each prong of the standard set out in the regulation.

For social disadvantage, the petition must present evidence establishing that the group has been subjected to cultural, racial, or ethnic prejudice because of their identity as members of a group without regard to their individual qualities.<sup>14</sup> The petition must show that the social disadvantage created by such prejudice is chronic, long standing, substantial, and beyond the control of the group’s members. Finally, the evidence must demonstrate that the social conditions experienced by the group have produced impediments in the business world for members of the group that are not common to those faced by all business people in the same or similar businesses or marketplaces.<sup>15</sup>

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<sup>14</sup> 15 CFR 1400.2(b).

<sup>15</sup> *Id.* at §1400.4(a).

For economic disadvantage, the petition must present evidence demonstrating that members of the group have had their ability to compete in the free enterprise system impaired due to diminished capital and credit opportunities because of their identity as members of the group without regard to their individual qualities, as compared to others in the same line of business and competitive market areas. The evidence in the petition must establish that the economic disadvantage created by such prejudice is chronic, long standing, substantial, and beyond the control of the group's members, as compared to others in the same line of business or market area. Finally, the economic conditions must have produced impediments in the business world for the group that are not common to those faced by all business people in the same or similar businesses or marketplaces.<sup>16</sup>

#### Application of Standard to Arab-American Petition

MDBA has reviewed the evidence presented in the Petition and the comments, as well as its own recognition of barriers Arab-Americans have faced, and has determined that, while there is qualitative evidence that demonstrates that Arab-Americans have faced significant prejudice in numerous instances, there is insufficient evidence that this undeniable prejudice has impaired their ability to compete in the free enterprise system due to diminished capital and credit opportunities. In addition, the available evidence does not, for purposes of this program, adequately show chronic, long standing, and substantial bias that has produced impediments in the business world for members of the group that are not common to all business people in the same or similar business and market place.<sup>17</sup>

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<sup>16</sup> *Id.* § 1400.4(a).

<sup>17</sup> In the absence of sufficient evidence in the Petition and comments, the Agency searched sources available to it and was unable to locate the type of statistical or empirical studies necessary to establish this element both for purposes of the regulation and as required to meet constitutional standards under existing case law.

The Petitioner adduces evidence that Arab-Americans have faced significant prejudice in the form of hate crimes and other adverse treatment based on characteristics, distinct clothing, or self-identification.<sup>18</sup> The Petition illustrates a sharp increase in prejudice since 9/11 by citing the Senate testimony of Assistant Attorney General Thomas E. Perez, that “more than 800 incidents involving violence, threats, vandalism, and arson against persons perceived to be Muslim or to be of Arab, Middle Eastern, or South Asian origin” were investigated by the Department of Justice between 2001 and 2011.<sup>19</sup> The testimony also highlights a 1,600 percent increase in reports to the FBI of discrimination and harassment of Arab-Americans following 9/11. An ADC report submitted in support of the Petition demonstrates a rise in the level of employment discrimination complaints filed by Arab-Americans in the period following 9/11 and includes instances where employees were released without explanation or were called derogatory names in the workplace, which led to their subsequent resignation.<sup>20</sup> This increase in prejudicial treatment is also suggested by evidence from the Equal Employment Opportunity Commission (EEOC) documenting 1,035 charges filed under Title VII alleging post-9/11 backlash employment discrimination.<sup>21</sup>

The Petition and supporting evidence demonstrates that, in too many instances, Arab-Americans have faced prejudice that has resulted in incidents of violence, assault, and other undeniably

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<sup>18</sup> Pet. at 15-16, 18, 23-25.

<sup>19</sup> *Id.* at 17 (citing *Statement of Thomas E. Perez, AAG Civil Rights Division before Senate Judiciary Subcommittee on the Constitution, Civil Rights, and Human Rights “Protecting the Civil Rights of Muslim Americans” March 29, 2011* available at [http://www.judiciary.senate.gov/hearings/testimony.cfm?id=e655f9e2809e5476862f735da169475f&wit\\_id=e655f9e2809e5476862f735da169475f-1-0](http://www.judiciary.senate.gov/hearings/testimony.cfm?id=e655f9e2809e5476862f735da169475f&wit_id=e655f9e2809e5476862f735da169475f-1-0)).

<sup>20</sup> *Id.* at 23 (citing *2003-2007 Report on Hate Crimes and Discrimination against Arab Americans*, American-Arab Anti-Discrimination Committee Research Institute at 34-38 (2008), available at <http://www.adc.org/PDF/hcr07.pdf>).

<sup>21</sup> *Id.* at 25.



adverse treatment.<sup>22</sup> But the Petition fails to connect this evidence to a showing of impediments in the business world for members of the group that are not common to all business people in the same or similar business and marketplace. Nor does the Petition establish that Arab-Americans have had their ability to compete in the free enterprise system impaired due to diminished capital and credit opportunities.

Specifically, the Petition fails to provide evidence of the type MBDA requires to establish a relationship between any discriminatory treatment and business impediments experienced by Arab-American businesses as a group that are not common to all business people in the same or similar market place. Section III of the Petition states that:

*Arab-Americans suffer from discrimination, prejudice and cultural bias in the workplace. This employment discrimination has produced obstacles in the business world for Arab-Americans – both as employees and entrepreneurs. Members of the group have no control over such discrimination. Other entrepreneurs and individuals, outside of the group, do not suffer from such discrimination and bias.*<sup>23</sup>

But, the Petition does not substantiate this assertion by providing evidence to support the statement, such as statistical measures of the impact that employment discrimination complaints have on Arab-American business success or workplace attainment. The EEOC complaints discussed above must be coupled with an analysis or study of the impact of discrimination on Arab-Americans in the business world.

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<sup>22</sup> However, nothing in the forgoing discussion or any other part of this response to petition should be construed as MBDA's acceptance of the Petition's assertions that the federal government has discriminated against Arab-Americans.

<sup>23</sup> *Id.* at 21.

In addition, a 2008 Arab American Institute Foundation study produced results contrary to the Petitioner's arguments. This study found that Arab-American households' mean individual income is 27% higher than the national average and that the group shows higher than average educational attainment.<sup>24</sup> These figures are not dispositive, but do suggest that prejudice Arab-Americans have faced may not have impacted their economic opportunities to the extent necessary to establish that Arab-Americans' businesses require the technical and outreach services that MBDA provides.

The Petition also does not establish with the necessary type of evidence that Arab-Americans have experienced diminished capital and credit opportunities. The descriptions of immigration controls, employment discrimination complaints, and post-9/11 programs that the Petition states target Arab-Americans do not demonstrate that Arab-Americans are unable to compete in the free enterprise system due to diminished capital and credit opportunities. Statistical or empirical evidence demonstrating a relationship between the discrimination suffered by the group and business impediments, or impaired access to capital, credit, contracts, and other business opportunities experienced by the group is necessary to show the social or economic conditions required to qualify the Petitioners for eligibility for MBDA's programs that assist businesses in obtaining access to capital, credit, contracting, and other business opportunities. The comments submitted in support of the Petition similarly lack this supporting information.

Accordingly, MBDA does not currently have sufficient evidence to recognize the Arab-American community as a minority group that is socially or economically disadvantaged within the specific meaning of the regulation because the Petition is not supported by sufficient

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<sup>24</sup> *Comment of Nicholas Legendre*, [http://www.mbda.gov/sites/default/files/AAPetitioncomments\\_asof062912.pdf](http://www.mbda.gov/sites/default/files/AAPetitioncomments_asof062912.pdf) at 56 (citing Arab American Institute Foundation, *Quick Facts About Arab Americans*, [http://aai.3cdn.net/afbc33810b07728c5a\\_oim6bx98f.pdf](http://aai.3cdn.net/afbc33810b07728c5a_oim6bx98f.pdf)).

evidence to meet the necessary elements of social or economic disadvantage as required by 15 CFR 1400.4(a) of the MBDA regulations and applicable case law. As such, MBDA has returned the Petition to ADC for further consideration consistent with this response to petition.

Dated: February 27, 2013

David Hinson

Director

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